

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 EB-11 COME-00 STR-08 TRSE-00

OMB-01 CIEP-02 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SPC-03 SS-15

USIA-15 ACDA-19 IO-13 ABF-01 XMB-07 FS-01 DRC-01 /172 W

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P R 121530Z SEP 73

FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 715

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

AMCONSUL MILAN

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E.O. 11652: N/A

TAGS: EFIN IT

SUBJECT: ITALIAN EXCHANGE MARKET DEVELOPMENTS

PASS TREASURY AND FRB

REF: ROME 8492

1. SUMMARY: AFTER STRENGTHENING PROGRESSIVELY DURING FIRST
THREE WEEKS OF AUGUST, LIRA HAS SHOWN LITTLE DEVIATION FROM
WIGHTED AVERAGE DEVALUATION AGAINST ALL MAJOR CURRENCIES OF
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APPROXIMATELY 11 PERCENT DURING PAST THREE WEEKS. AS OF

SEPTEMBER 12 SPREAD BETWEEN FINANCIAL AND COMMERCIAL IRA RATES HAS WIDENED TO MORE THAN 30 LIRE. BANK OF ITALY HAS NOT INTERVENED IN MARKET SINCE EARLY AUGUST WHEN IT ENTERED MARKET TO SELL LIRE. PROVISIONAL MONETARY MOVEMENTS DATA THROUGH AUGUST 15 SHOW GLOBAL DEFICIT OF \$978 MILLION. END SUMMARY.

2. AFTER PROGRESSIVE STRENGTHENING OF LIRA SUBSEQUENT TO ANTI-SPECULATIVE MEASURES TAKEN END OF JULY FROM 18 PERCENT AVERAGE DEPRECIATION AGAINST ALL MAJOR CURRENCIES ON JULY 30 TO 11 PERCENT ON AUGUST 23, LIRA HAS STABILIZED AT JUST UNDER 11 PERCENT DURING PAST THREE WEEKS. ON SEPTEMBER 12 COMMERCIAL LIRA WAS 566.125 LIRE PER DOLLAR AND FINANCIAL LIRA WAS 600.575. COMMERCIAL IRA HAS AVERAGED 565 DURING LAST 10 DAYS WHILE FINANCIAL LIRA HAS AVERAGED 594. RECENT WEAKENING OF FINANCIAL LIRA, WHICH DUE TO THINNESS OF FINANCIAL LIRA MARKET IS EASILY AFFECTED BY LARGE TRANSACTIONS, HAS WIDENED SPREAD BETWEEN COMMERCIAL AND FINANCIAL RATES TO 34 LIRE ON SEPTEMBER 12.

3. ACCORDING TO BANK OF ITALY CENTRAL DIRECTOR FOR EXCHANGE OPERATIONS, ERCOLANI, BOI HAS NOT BEEN ACTIVE IN MARKET SINCE EARLY AUGUST WHEN BANK SOLD LIRE AND TOOK IN FOREIGN EXCHANGE. HE NOTED THAT RECENT STABILIZATION OF LIRA EVIDENTLY REPRESENTED MARKET'S ESTIMATION OF A DESIRABLE LEVEL FOR LIRA. AS FAR AS BOI IS CONCERNED, PRESENT LEVEL IS SATISFACTORY GIVEN CURRENT DOMESTIC ECONOMIC SITUATION AND TRADE BALANCE PERFORMANCE. HOWEVER, ALTERATIONS IN BUSINESS CYCLE CONDITIONS BETWEEN ITALY AND TRADING PARTNERS WOULD MOST LIKELY MAKE A FURTHER CHANGE IN RELATIVE STRENGTH OF LIRA DESIRABLE, ESPECIALLY IF RATE OF ECONOMIC DEVELOPMENT IN ITALY CONTINUES TO PICK UP INCREASING INTERNAL DEMAND FOR IMPORTS WHILE GROWTH RATE IN OTHER EUROPEAN ECONOMIES TAPERS OFF LEADING TO A DECLINE IN FOREIGN DEMAND FOR ITALIAN EXPORTS.

4. IN RESPONSE TO EMOFFS COMMENT ABOUT RECENT PRESS SPECULATION CONCERNING FUTURE OF DUAL MKKET AND CONTINUED FLOAT OF LIRA, ERCOLANI SAID THAT THERE WERE TWO NECESSARY PRE-CONDITIONS FOR ENDING DUAL MARKET: (1) LIRA HAD T BE STABLE (HE DID NOT CONSIDER THAT IT WAS REALLY STABLE NOW EVEN AFTER THREE WEEKS LIMITED OFFICIAL USE

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OF FAIRLY CONSISTENT PERFORMANCE); AND (2) SPREAD BETWEEN FINANCIAL AND COMMERCIAL RATES HAD TO NARROW CONSIDERABLY.

5. PROVISIONAL MONETARY MOVEMENTS DATA THROUGH AUGUST 14 SHOW A GLOBAL DEFICIT OF \$978 MILLION OF WHICH \$681 MILLION WAS FINANCED BY OFFICIAL RESERVES AND \$297 MILLION FROM WORSENING IN FOREIGN POSITION OF COMMERCIAL BANKS. DURING JULY MONETARY MOVEMENTS REGISTERED A MODEST SURPLUS OF \$11 MILLION

DUE TO A DECREASE IN SHORT-TERM LIABILITIES AND IMPROVEMENT
IN COMMERCIAL BANKS' POSITION BY \$286 MILLION. DURING FIRST
14 DAYS OF AUGUST. INFLOW OF \$422 MILLION IN GOLD AND CONVERTIBLE
CURRENCY AND IMPROVEMENT IN COMMERCIAL BANKS' POSITION BY \$15
MILLION WERE LARGELY RESPONSIBLE FOR A \$455 MILLION OVERALL
SURPLUS. DURING JULY , \$200 MILLION OF \$1,000 MILLION ENEL
LOAN WAS RECEIVED AND REMAINDER WAS RECEIVED IN AUGUST. ALSO
DURING JULY, EUROMARKET LOAN OF \$500 MILLION CONTRACTED BY
MEDIOBANCA WAS RECEIVED. RECEIPT OF STATE RAILROAD LOAN OF \$200
MILLION IS NOT EXPECTED BEFORE OCTOBER. VOLPE

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